

CollegeCounts 529 Board Meeting  
November 6, 2013  
MINUTES

**Board Present:**

Chair Young Boozer  
Mr. Dennis Beavers  
Mr. Chess Bedsole  
Ms. Jane Leatherwood for Dr. Mark Heinrich  
Mr. Daniel Hughes  
Dr. William Meehan  
Mr. Ronald Stokes

**Board Absent:**

Dr. Greg Fitch  
Lt. Gov. Kay Ivey  
Mr. Mychal Smith

**Others Present:**

Ms. Daria Story, Assistant Treasurer  
Ms. Glenda Allred, Deputy Treasurer  
Mr. Chad Wright, Program Director  
Mr. Jay Steinacher, Union Bank & Trust  
Mr. William Shafferman, Union Bank & Trust  
Ms. Cari Kaup, Union Bank & Trust  
Mr. Jeremy Thiessen, PCA Consultants  
Mr. Mannik Dhillon, Wilshire Associates (by phone)  
Mr. Trevor Jackson, Wilshire Associates (by phone)  
Ms. Tiffany Turner, ISTS

Pursuant to written and public notice, the meeting of the Board of Directors of the CollegeCounts 529 Fund was held in the Conference Room of Baker, Donelson, Caldwell & Berkowitz, P.C. in Birmingham, Alabama on November 6, 2013.

**Agenda Item 1.**

The meeting was called to order by Chair Young Boozer at 9:25 a.m. Roll was taken with a quorum present.

**Agenda Item 2.**

Chair Boozer presented the minutes of the August 7, 2013 board meeting. A motion for approval of the minutes was made by Mr. Beavers, seconded by Mr. Bedsole, with unanimous approval.

**Agenda Item 3.A.**

Chair Boozer called on Mr. Chad Wright for the program report. Mr. Wright provided information on the program budget as well as asset statements for the Administrative and Opportunity Enhancement Funds. Mr. Wright mentioned that state examiners recently completed the required legal compliance audit of the program and that the final report would be issued and copied to board members in the near future. He stated that the auditors have indicated that the report would be very positive, with no negative findings. Mr. Wright mentioned that numerous PACT account owners had called to inquire about rolling funds from PACT to CollegeCounts or establishing supplemental accounts with CollegeCounts in addition to their PACT funds. He then stated that all scholarship payments for the fall semester had been issued and that \$277,000 had been paid to twenty nine schools within the state.

**Agenda Item 3.B.**

Chair Boozer called on Mr. Jay Steinacher for the quarterly program review. Mr. Steinacher stated that the third quarter of 2013 was another very strong period for the program. He indicated that total assets in the plan increased to \$1.062 billion at quarter-end, with year over year assets up 19.2%. Year to date plan assets held by Alabama residents have increased by 28.5% to a record level of \$370.6 million. Mr. Steinacher stated that total plan contributions for the first 9 months of the year were up 16.4% over the same period in 2012. Rollover contributions from other plans continue to be solid as well, with \$24.1 received year to date. He provided general statistics on the plan, indicating that the program continues to offer solid investment choice and diversity, with approximately 2/3 of the assets in the plan invested in equities and the remaining 1/3 in fixed income. He stated that the average age of account owners is 48 and the average age of beneficiaries is 12, with an average account size of approximately \$17,000. Mr. Steinacher went on to provide information on new account activity, withdrawal activity, portfolio assets by market value, asset allocation and beneficiary statistics. Mr. Steinacher then mentioned that the current marketing firm for the program, Red Square, has indicated that they are changing their business model to focus more on promotion of the gaming industry and away from the full range of services that have been offered to the program in the past. He stated that while the change should not be of particular concern for the board, a Request for Information (RFI) would be issued in the coming weeks to solicit proposals from full service Alabama marketing firms.

Mr. Steinacher asked Mr. Will Shafferman to provide information on grass roots marketing efforts. Mr. Shafferman highlighted information on the numerous advisor contacts, community events, conventions and conferences that he had attended to market the program. He mentioned that he was receiving very positive feedback from both the advisor and direct communities. He detailed 7 summer reading program events in July with attendance ranging from 40-200 parents and the day care and PTO kickoff meetings that were attended in August. Mr. Shafferman then discussed employer related events that were attended, including the Birmingham Society of Human Resource Management vendor fair and stated that several employers have inquired the program as a result of these events. He went on to say that he had also attended numerous direct plan events that were very successful including the Birmingham and Huntsville Babypaloozas the Madison Street Festival, the Bellingrath Balloon Glow and numerous "zoo boos".

Mr. Steinacher asked Ms. Cari Kaup to provide information on the customer care process that Union Bank provides for the program. Ms. Kaup provided information on the web activity for the direct and advisor sites. She stated that fifteen call center representatives were available to provide service to callers Monday through Friday between the hours of 7:30 a.m. and 6:00 p.m. Due to increased calls at year end for tax related inquiries, etc, Ms. Kaup stated that the call center would offer extended weekday hours (until 7:00 p.m.) and Saturday hours as well during the month of December.

She said that the calls had increased during the third quarter due to the start of fall semester classes and that they had taken over 30,600 calls year to date, which is around 1,600 more than 2012. She then provided information on call volumes, average answer times and average abandon rates and marketing materials that were utilized during the third quarter.

### **Agenda Item 3.C.**

Chair Boozer called on Mr. Trevor Jackson and Mr. Mannik Dhillon of Wilshire Associates for the investment performance report. Mr. Jackson and Mr. Dhillon indicated that performance during the third quarter was very good. Mr. Dhillon stated that equity markets in particular had done very well with growth stocks outperforming value stocks in general. He stated that the economically sensitive sectors performed well with improved consumer sentiment. Non-U.S. equity markets enjoyed strong performance overall during the third quarter, with emerging markets stocks buoyed by improved economic indicators for China. Fixed income markets improved during the quarter, with the 10 year U.S. Treasury yield peaking at 2.98% in September, its highest level since July, 2011. Credit and High Yield Credit investments performed better during the quarter than the Barclays Aggregate. U.S. public-market real estate securities extended second quarter losses into the third quarter as bond yields continued to rise.

Mr. Dhillon then provided a summary of the individual fund portfolios for both the direct and advisor plans and provided commentary on fund performance compared to the relative benchmarks.

### **Agenda Item 3.D.**

Chair Boozer called on Mr. Thiessen for the consultant's analysis. Mr. Thiessen provided a summary of PCA's investment market risk metrics, fund performance and status report. He stated that the overall status of the underlying funds did not change from the prior quarter and have done quite well. He stated that there were two funds in the advisor plan that remain on watch status as of the end of the quarter—Cohen & Steers Dividend Value and ING Global Real Estate. No additional funds qualified for watch status. Since being placed on watch, the Cohen & Steers Dividend Value Fund has trailed its benchmark by 4.9%. Relative underperformance is attributed to poor stock selection in the consumer, cyclical, technology and energy sectors. However, as interest rates rise, the fund may be poised to outperform in the near future. PCA recommends that the fund remain on watch status.

During the ING Global Real Estate Fund's nine month watch period, performance has lagged behind the benchmark by 2.9%. Relative underperformance is attributed to the fund's high allocation to U.S. stocks which have performed well but trailed the fund's non-U.S. allocations. The fund provides participants with solid, diversified international real estate exposure with no immediate concerns over relative underperformance. PCA recommends that the fund remain on watch status.

A motion to accept the PCA recommendation was made by Dr. Meehan, seconded by Mr. Hughes, with unanimous approval.

### **Agenda Item 3.E.**

Chair Boozer called on Ms. Glenda Allred for a report on the CollegeCounts Scholarship Program. Ms. Allred introduced Ms. Tiffany Turner from International Scholarship and Tuition Services (ISTS). Ms. Allred stated that the scholarship program was extremely successful in year one and that there were only two significant changes being recommended for year two. The first recommended change is an adjustment to the weightings for applicants attending four-year schools. The ACT score weight will be increased from 7.5% to 10%, the GPA weight will be reduced from 22.5% to 20% and the remaining weights will remain the same. She stated that no changes would be made to the weightings for two-year schools. The second

recommended change is to reduce the estimated family contribution (EFC) cap from \$20,000 to \$12,500. Ms. Allred provided a breakdown of the EFC's from the 2013 applications and stated that the average EFC for scholarship recipients was approximately \$1,400. She then mentioned two additional minor changes to the process for 2014, to accept Social Security annual statements for applicant parents that do not file taxes due to income and to award scholarships (one per county based on need) for a total of 67, with the remaining 83 selected based on formulas/weightings with no county residence requirement. Ms. Allred then provided a timeline that included when school counselors would be notified, the 2014 application period and notification dates. She noted that the application period would end approximately two weeks later in an effort to allow additional time for applicants to submit tax returns for income verification. She also provided a summary of efforts that would be utilized to market the scholarship program.

A motion to accept the recommended changes to program structure was made by Dr. Meehan, seconded by Mr. Beavers, with unanimous approval.

Chair Boozer stated that, in 2013, the program awarded 150 scholarships totaling approximately \$600,000 and indicated that the goal would be the same for 2014. He summarized the sources of revenue for the program as well as current and anticipated expenses. He stated that, in future years, the board should consider how to best expand the program by continuing to anticipate the revenues and expenses and determining what percentage of the plan's corpus, if any, should be utilized to award scholarships going forward. Chair Boozer indicated that he feels that the plan should be expanded to an annual amount above \$600,000, but that the board should determine how and when that should be done. Mr. Hughes commented that the board should first consider the asset allocation that will be maintained in the corpus and what the board's long term objective for the corpus is. He stated that he anticipates maintaining the current asset allocation of 60% equities which correlates, in his opinion, to approximately a 4% payout of the corpus. Dr. Meehan agreed and stated that colleges and universities followed those same general guidelines. Chair Boozer indicated that no action was necessary by the board at this time but, policies and guidelines should be established going forward.

#### **Agenda Item 4.A.**

Chair Boozer called on Ms. Tiffany Turner to provide information about ISTS and the company's involvement with the scholarship program. Ms. Turner provided an overview of the company, stating that they were a full-service program management provider located in Nashville, Tennessee with 28 years of experience administering scholarship programs, tuition programs and grants. She stated that ISTS serves over 200 clients and over 500,000 applicants from 160+ countries annually. She provided a summary of the company's diverse clientele including corporations, associations, community foundations, state and national programs and charitable campaigns. Ms. Turner then gave information on the application process, applicant communications initiated by the company and possible enhancements that could be made to the program in future years.

#### **Agenda Item 4.B.**

Chair Boozer provided the latest Morningstar Analyst Ratings and stated that, while the overall ratings for the CollegeCounts programs remained the same, the analysis and written report was more positive than the prior year report, a clear indication that the board has made positive enhancements to the program. Mr. Steinacher provided an overview of the process as well as a summary of the report. He stated that the direct plan was awarded a bronze rating, while the advisor plan was given an overall rating of neutral. He said that Morningstar was very complimentary of the board's processes and the due diligence performed by the board in its oversight of the program. He said that he expects Morningstar to make an onsite visit to Union Bank and Trust within the next year and he anticipates that will further enhance their

understanding and perception of the plans. Chair Boozer reiterated that Morningstar recognized the positive changes that had been approved and implemented by the board and pointed out that performance was improving.

**Agenda Item 5.**

Chair Boozer informed the board of the dates and times for all 2014 meetings.

There being no further business, a motion to adjourn was made by Mr. Beavers, seconded by Mr. Bedsole, with unanimous consent. The meeting adjourned at 12:15 p.m.

All detailed reports were received for information and are attached for reference.

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Chad Wright, Recording Secretary

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Young Boozer, Chair